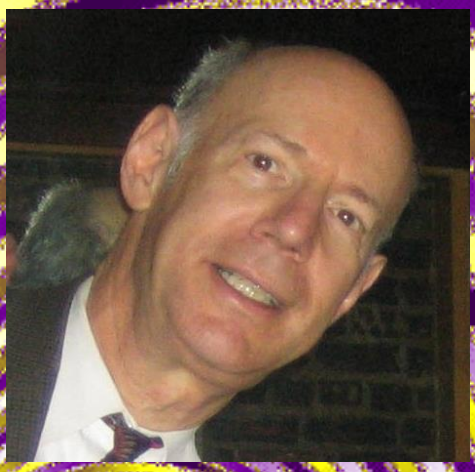
The Wage-Price Spiral:
From Push to Shove



Daniel J.B. Mitchell

Christopher L. Erickson

Seattle, WA: NAEFA-WEAI Session: June 30, 2007

The Wage-Price Spiral:
From Push to Shove

Agenda:

- Origins of the idea of wage-push inflation and the wage-price spiral

- Implementation of the idea under various presidents

- Continued thinking and rhetoric among economists and policy makers suggesting (incorrectly) that wage-push is still a problem

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The Wage-Price Spiral:
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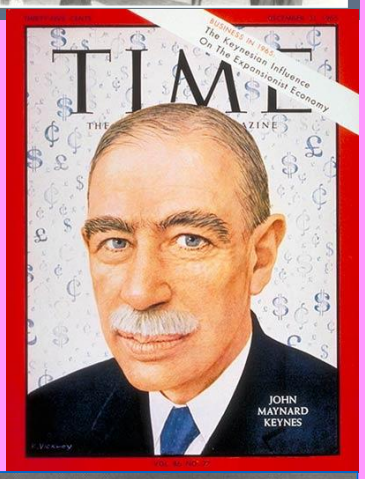
What was most implausible?

- **Comet?**
- **Wage-Price Freeze?**

Conceptual Background

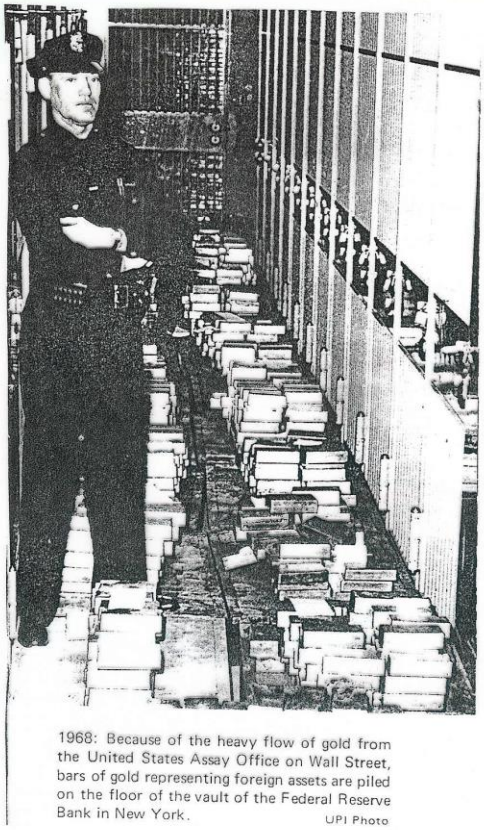
- **Administered pricing: Gardiner Means and others during the Great Depression and after**
- ***Rise of unions in 1930s and 40s***
- **Key settlements idea reinforced by wage-price controls**
- ***Keynesian thinking on attaining full employment***
- **Notion of shifting Phillips curve to the left and later reducing NAIRU**



Gold and Dollar Problem

- Bretton Woods
- Dollar Shortage
- Dollar Surplus
- Gold Outflow
- International Competitiveness
- Controls on Capital Outflows

The vaultlike U.S. Bullion Depository at Fort Knox, Kentucky.

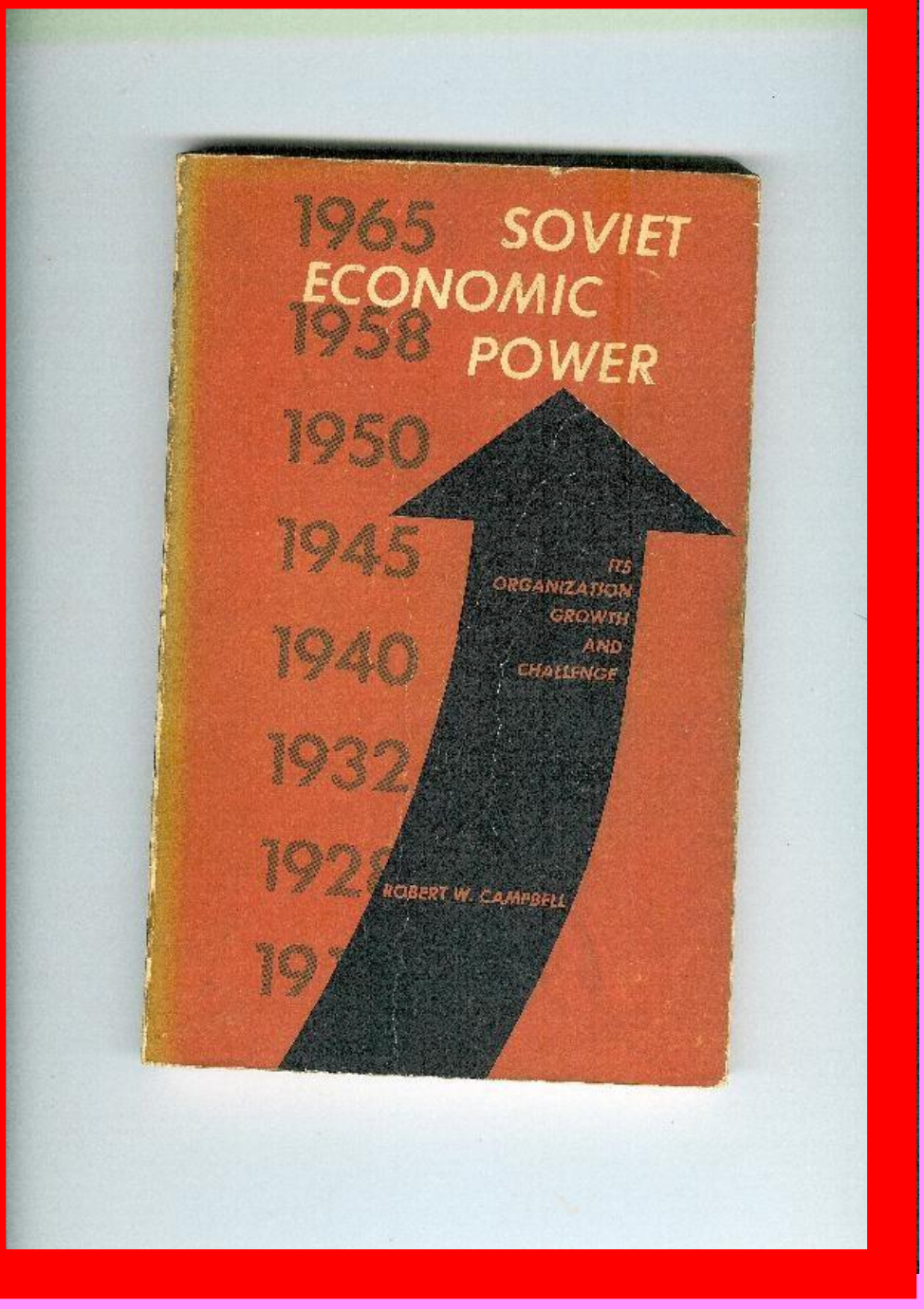


1968: Because of the heavy flow of gold from the United States Assay Office on Wall Street, bars of gold representing foreign assets are piled on the floor of the vault of the Federal Reserve Bank in New York. UPI Photo

Cold War Background

- Keep up with the Russians
- Sputnik launch
- Projections of higher growth in USSR
- Anti-inflation monetary/fiscal policy seen as slowing US growth

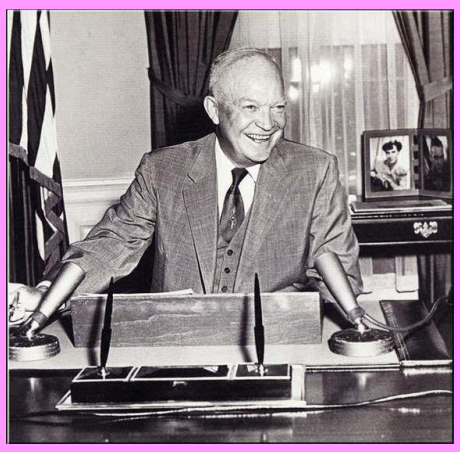
Cold War Background



Steel Industry

- **FDR: Little Steel Formula in WWII**
- **Truman: Confrontation on steel seizure during Korean War**
- **Eisenhower: Steel strike of 1959-1960**
- **Kennedy: Confrontation on steel pricing of 1962**

Concept of Key Industry



Eisenhower

Eisenhower

- **Decides to retain CEA**
- **Concerns turn to creeping inflation**
- **Beginning of linkage between productivity growth and wage change standard**

Arthur Burns, Chair, CEA, 1953-56

Kennedy

- **Inherits gold/dollar problem**
- **Keynesians anxious for tax cut to stimulate economy**
- **Inflation concerns**
- **Wage-Price Guideposts**
- **Steel confrontation**

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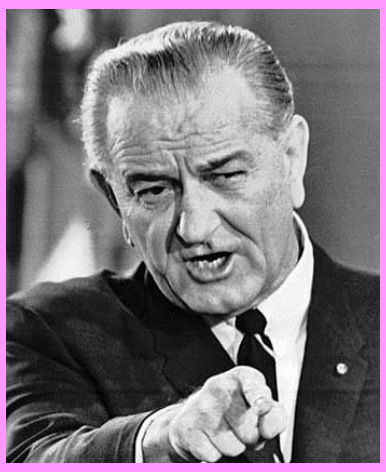

Johnson

- Inherits Kennedy's guideposts
- Demand pressures from Vietnam War
- Acceleration of inflation
- Airline machinists effectively kill guideposts

Nixon

- **Initially eschews wage-price intervention**
- **Soft landing turns hard**
- **Democrats grant blank check**
- **Nixon writes check**

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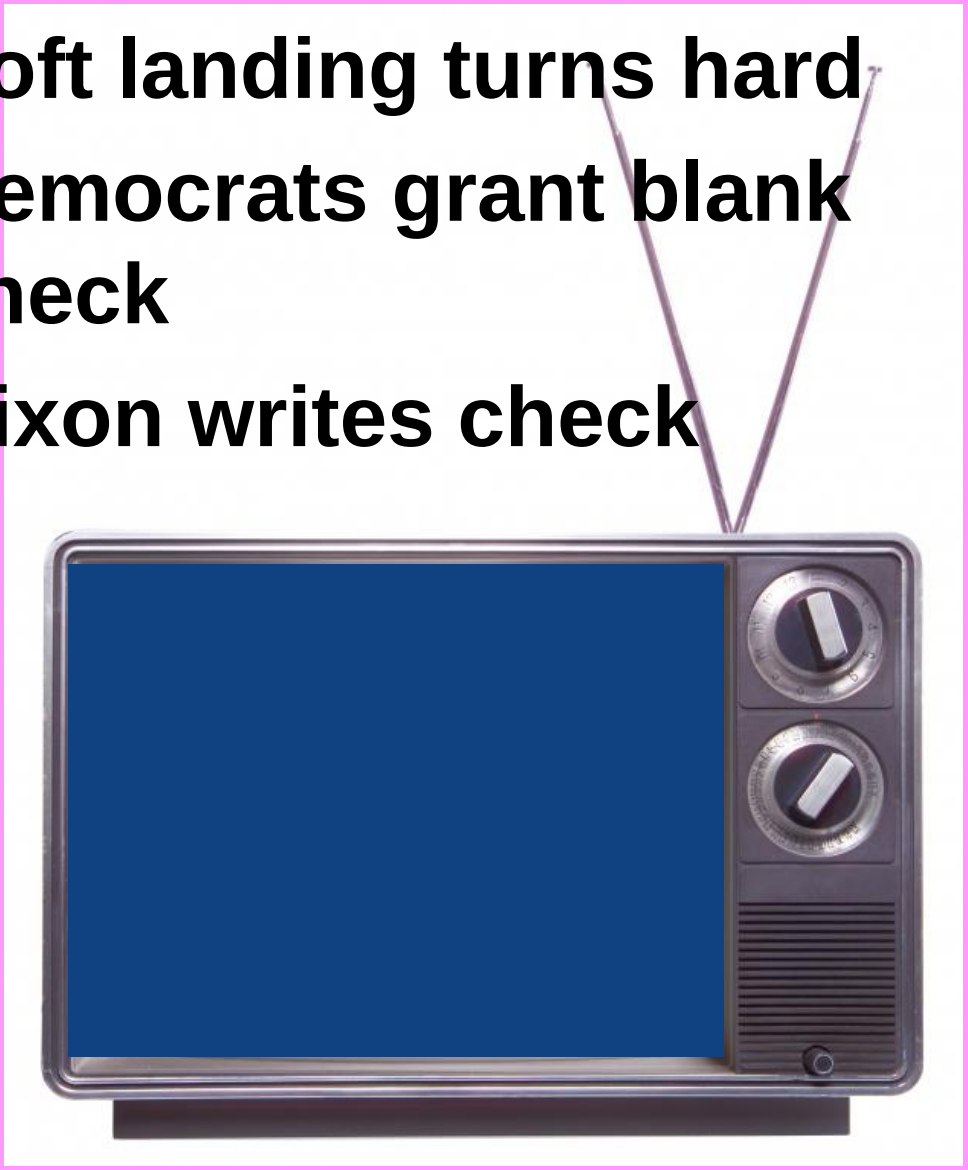

Nixon

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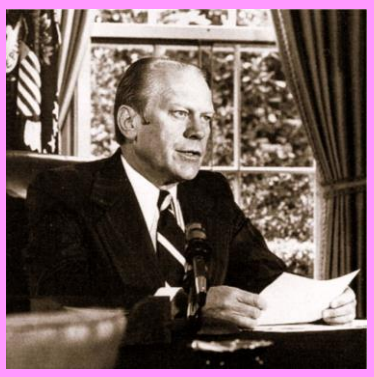
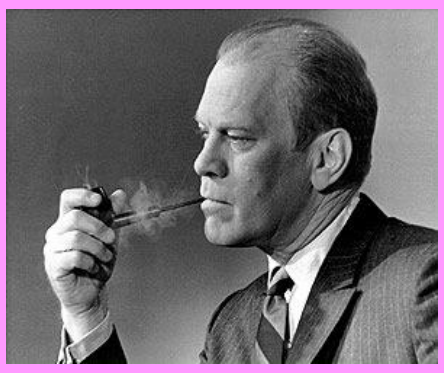
"Look, George! I think it's begun!"



Ford

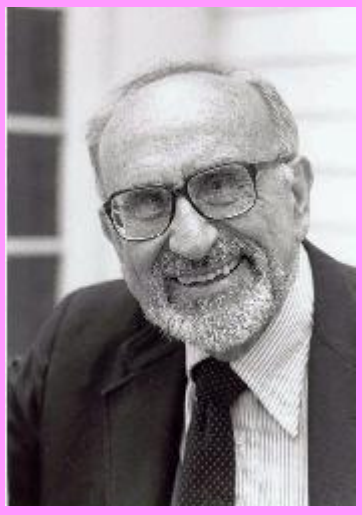


- End of Nixon controls
- Return to Eisenhower-type exhortations
- WIN buttons
- Council on Wage and Price Stability

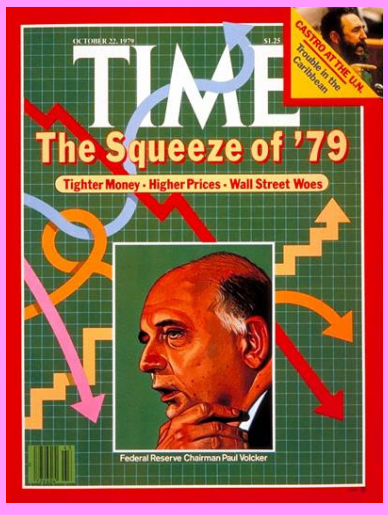
COURTESY: GERALD R. FORD PRESIDENTIAL MUSEUM

Carter

- Inherits COWPS from Ford
- Develops new guidelines
- Abortive attempt at “real wage insurance”
- Appoints Volcker as Fed chief setting stage for later monetarist approach to inflation reduction



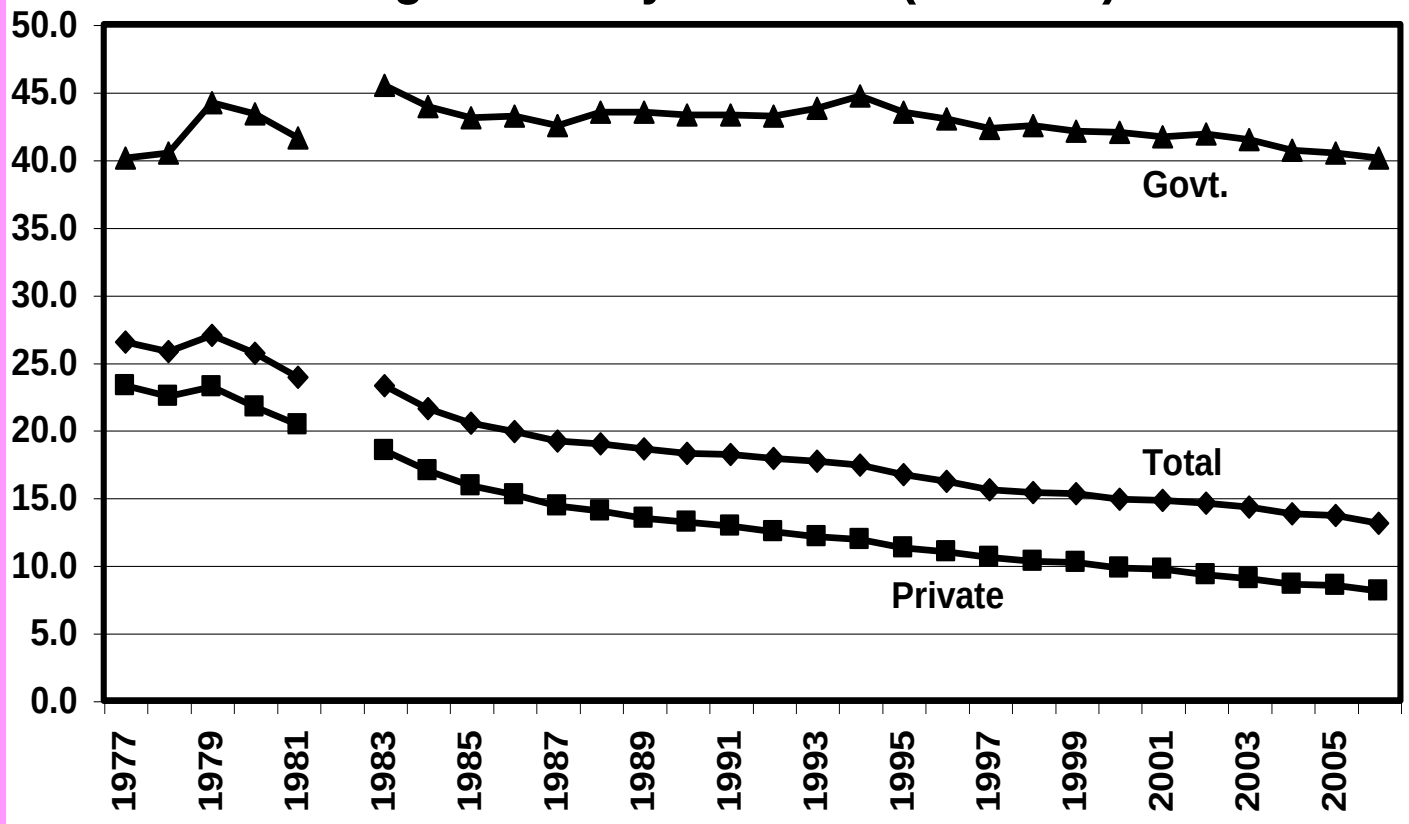
Alfred Kahn, Chair of COWPS



Reagan and beyond

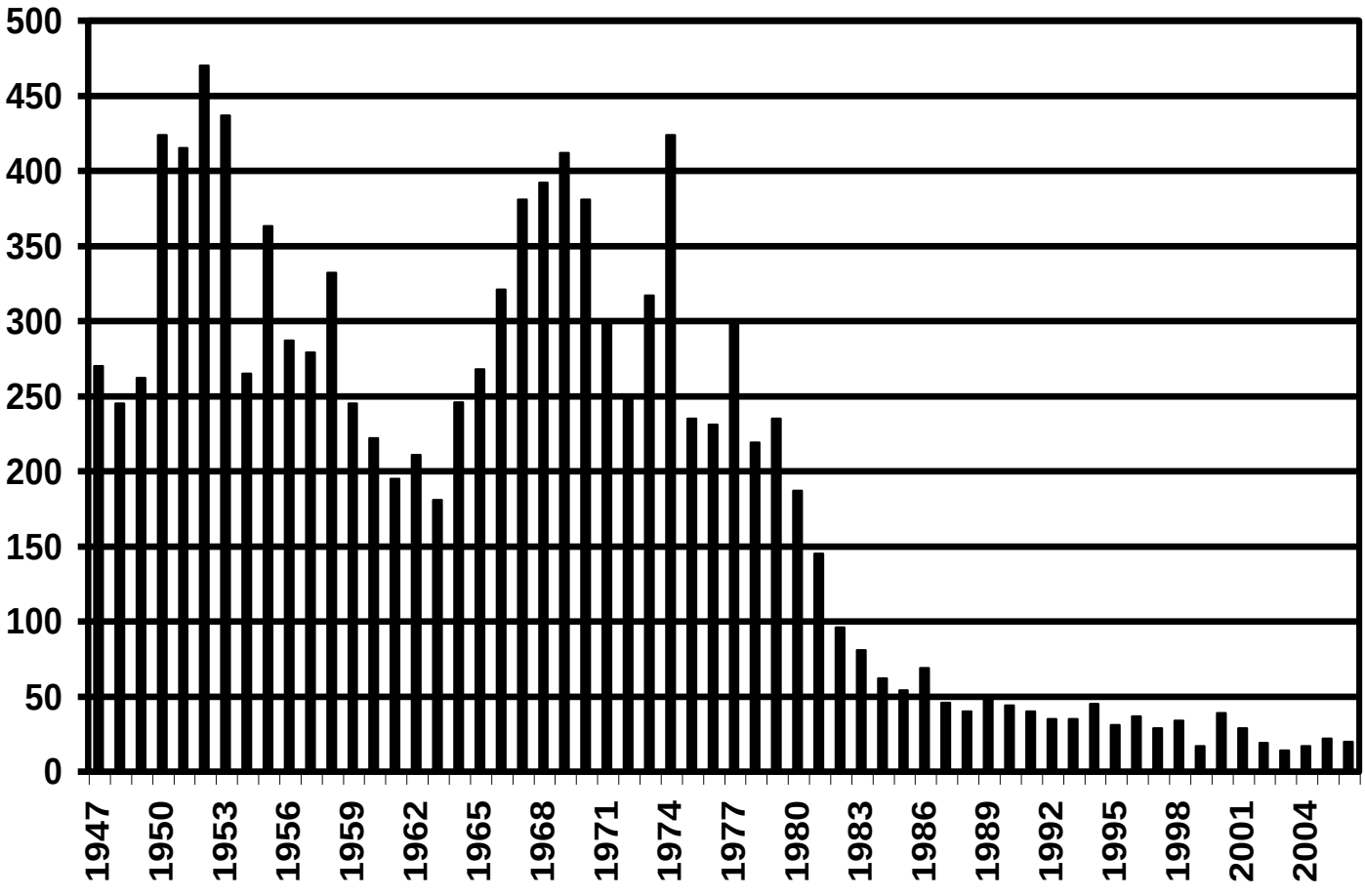
- Ends COWPS and guidelines
- Supports Volcker's monetarism
- Union decline making wage-push implausible
- But notions of wage-push and wage-price spiral linger
  - At the Fed
  - At the CEA
  - Within macroeconomics
- Rhetoric
  - Workers will "demand"
  - Workers won't "accept"
  - "Fearful" workers afraid to "demand"
  - Workers are fooled by productivity advance and lag in their "demands"

Reagan and beyond



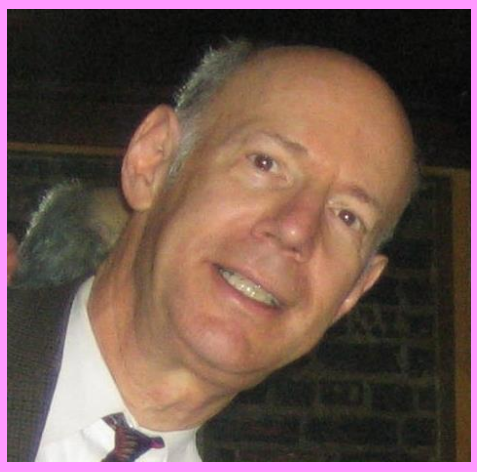
Source: www.unionstats.com (CPS data)

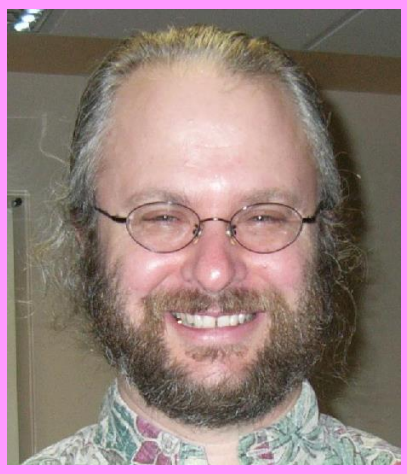
Reagan and beyond



Source: BLS

"Be careful what you say; it might be what you mean."





Mitchell and Erickson:
"Not Yet Dead at the Fed,"
Industrial Relations
October 2005

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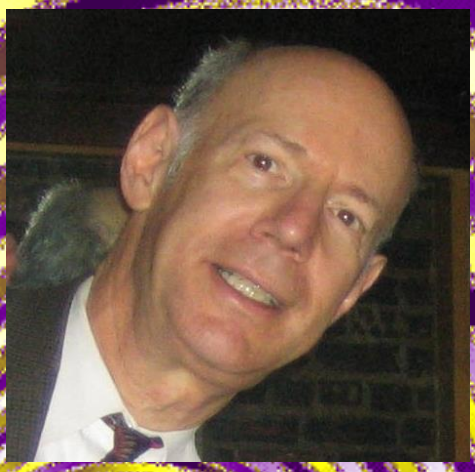

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